

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	
Universal Service)	CC Docket No. 96-45
)	

**Comments of the
Regulatory Commission of Alaska**

Date: August 6, 2004	<u>/s/</u> _____
	Kate Giard, Chairman

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The Regulatory Commission of Alaska (RCA) appreciates an opportunity to respond to the Notice of Proposed Rulemaking (FCC 04-127) seeking comment on the *Recommended Decision* of the Federal-State Joint Board on Universal Service (Joint Board) concerning Eligible Telecommunications Carrier (ETC) policies and associated support mechanisms.

Summary

We support the adoption of permissive federal guidelines for review of requests for ETC designation. We believe awarding ETC status only when reasonable and supported by an adequate record will help address concerns over fund growth. We also support a cap on per-line funding when a second carrier obtains ETC status in a market, but only as an interim measure to prevent undue fund growth while the Joint Board and the Federal Communications

Commission (FCC) seek a permanent solution through their review of the rural funding mechanism.

We request that the FCC fully consider all the consequences of instituting any proposal that limits support to a single connection. We question whether it is reasonable or consistent with the concept of predictability to make such a radical change in the funding mechanism on the basis of a limited record. We are concerned that a single connection policy could be difficult to successfully implement, could discourage network investment, could undermine universal service, and could ultimately lead to higher local rates. Further, noting that changes are likely to occur as the Joint Board and FCC review the rural support mechanism, we question whether the timing is right to institute this change.

While we do not support a single connection approach, if the FCC decides to implement such a policy, it should only do so after ensuring that predictable and sufficient mechanisms are in place to prevent undue and material local rate increases in rural areas. The pending three Joint Board proposals (e.g., rebasing, lump sum, hold harmless) might not be sufficient to resolve the concerns noted above nor fully anticipate a myriad of unintended, negative consequences.

Permissive Federal Guidelines for ETC Status

On July 21, 2004, we conducted a public meeting to receive presentations on how we should respond to the FCC's Notice of Proposed Rulemaking in this docket. The industry participants represented companies with long distance, local exchange, and wireless interests. Those at the public meeting unanimously supported permissive federal guidelines for ETC status.

We agree that instituting federal guidelines is in the public interest for a variety of reasons. Such guidelines will reduce debate and disputes over what critical issues a state may consider as part of an ETC analysis and will promote a more uniform approach nationwide when dealing with requests for ETC designation. Guidelines will also provide a template to assist states in ensuring that only fully qualified applicants receive ETC status. The public and the fund both benefit to the extent that only qualified ETCs are able to receive federal universal service support.

Single Connection Policy

We share the Joint Board's concern that the universal service fund must be sustainable and that current growth trends compromise that goal. However, we are not persuaded that the proper resolution of the matter requires adoption of a single connection policy.

In Alaska, all but one of the existing competitive ETCs is a wireless based company, and several wireless carrier applications for ETC status are pending. We believe that evaluation of the single connection proposal must

consider how universal service to customers will be affected when in the more rural areas of Alaska federal funding is split between one or more wireless ETCs and the existing local exchange carrier.

As the Joint Board noted, wireless service may “supplement, rather than replace, wireline service.”¹ In such a situation, the local carrier may continue to be responsible for provision of local service to its existing customer base while suffering reduced support to the extent that a wireless ETC obtains “primary connection” designations.

Many local exchange companies in Alaska are remotely located in rural areas and serve fewer than 20,000 access lines. Given arctic conditions, minimal road system, and remoteness, local exchange service tends to be difficult and expensive to provide, with affordable rates dependent upon federal support. (See Table 1.) Rural local exchange carriers in Alaska have limited economies of scale and customer base, making it difficult for them to absorb material reductions in universal service funding. The single line proposal effectively requires rural Alaskan carriers to maintain their existing levels of service with reduced support. Facing reduced support, these companies may

¹CC Docket No. 96-45, *Recommended Decision*, FCC 04J-1 (*Recommended Decision*), para. 98, rel. February 27, 2004.

no longer be able to provide affordable rates and ensure adequate infrastructure to provide quality services comparable to those found in urban areas.

The Joint Board stated that there must be a means to avoid or mitigate the reduction in the amount of high-cost support flowing to rural areas as a result of implementing a single connection restriction.² However, there is no easy solution to this problem and the proposals suggested by the Joint Board may be inadequate.

Under the “rebasing” proposal a small, rural local exchange carrier could face unaffordable reductions in support, not due to competition, but due to the mechanics of the single connection system. Rebasing increases the support per line but does not necessarily mitigate or avoid the problem cited above where a carrier is expected to maintain service to its current customer base, with material reductions in support when customers continue to require both wireless and wireline service. (See Table 2.) The lost support would not be due to competition since the customer remains with the local exchange carrier. Under this realistic scenario, the only change is the move to a single connection approach and the customer has designated the wireless line as the primary line. Requiring small, rural local carriers to maintain existing levels of service with materially reduced support could lead to higher local rates, reduced

²*Recommended Decision* at para. 103.

infrastructure investment incentives, and could compromise the goal of universal service.

To some extent wireless carriers may face a similar problem if they have built networks with reliance on federal support, have not lost customers to a wireline ETC, but under the rebased single connection approach have lost support when the customer with both wireless and wireline service designates the wireline as a primary line.

In conclusion, we do not believe that rebasing adequately addresses many of the deterrents of a single connection system for small carriers operating in the nation's most rural areas.

The Joint Board has also advanced a lump sum proposal to help mitigate the effects of the single connection approach. Regardless of its merits, we believe the lump sum proposal may be unsustainable as it would likely be subject to challenge as to competitive neutrality.³

The Joint Board suggests that states should have the flexibility to address the issue of adequate funding should the federal system discontinue support for non-primary lines. This is not necessarily the case for Alaska. The nationwide average level of support per loop per month is \$1.34, with most states receiving under \$3.00 in support per line per month. In comparison, Alaska receives \$14.62 per line per month in support due to the high cost of

service and the relatively low population base (about 500,000 access lines). The Alaska state universal service fund would need to triple in size to be able to absorb even a 10 percent reduction in High Cost Loop support. We believe that reductions in federal support would levy significant hardship on Alaskan consumers compared to those in other states.

While we are primarily concerned with the economic effects of a single connection policy, we also believe that significant administrative difficulties are created by such an approach. As we understand this proposal, the fund would only support one connection per household or business. This assumes that the household or business location can be uniquely identified and tracked to ensure only one primary line is assigned. However in many parts of rural Alaska, households and businesses do not have street addresses, and road access is limited.⁴ This will likely make it difficult to ensure only one primary line is assigned to a location.

Further, it is unclear how the single connection restriction would apply to a business that has multiple offices throughout the state or multiple lines. It remains an important principle, however, that adequate support be provided to business customer lines to prevent dramatic rate increases that may

³Recommended Decision at paragraph 105. The approach provides the lump sum support only to the incumbent ETC.

⁴It is common for rural residents to receive mail at post office boxes. The E911 program in Alaska has at times been limited in part due to the lack of house addresses.

be harmful to a community. Nor is it clear how the single line restriction would apply to people who own multiple dwellings. Issues of privacy may arise as carriers seek information in attempts to determine whether an individual or a business qualifies for a single connection rate or whether a relative or household member has designated a primary line with another carrier.

We conclude that it will be difficult to audit and verify that a household or business only benefits from one primary line, not just in Alaska, but throughout the country. There will likely be significant incentives for customers to game the system to obtain reduced rates for “primary line” service from both the wireless and the wireline carriers. Carriers will also face incentives to “slam” customers’ primary line designations so as to obtain federal universal service support.⁵

We question whether it is reasonable or consistent with the concept of predictability to adopt a radical single connection funding mechanism when further changes are likely to occur in the near future as the Joint Board and FCC conduct their review of the rural support mechanism.

It may be disruptive both to customers and to carriers for existing support levels to be reduced as a result of the single connection policy only to be potentially changed again once a rural support review is completed. There is a cost to both the local carrier and its customer each time a carrier within our

jurisdiction prepares and defends a rate case for our review. Adjusting rates twice in relatively quick succession as a result of changing federal policies may be disruptive and increase the costs of service.

Support Cap

The Joint Board recommends that the FCC institute a cap on primary line support when a competitive ETC is present or when a competitive ETC enters a market, with the cap adjusted annually by an index factor. As previously indicated we do not support the primary line approach and would question a per primary line cap. However, we do not oppose a temporary per line cap. We believe it is rational for the FCC to attempt to maintain the status quo support per line in a market with two ETCs given concern of the upward spiral in support and given that the rural support mechanism is pending review.

Conclusion

The recommendation of the Joint Board to limit support to single connections should not be adopted. If it is adopted, adequate protections should be instituted to prevent material local rate increases, though it is unclear

⁵By “slamming” we mean that a customer’s primary line designation will be changed without their approval.

that any of the options proposed to date (rebasing, lump sum, hold harmless) will be adequate. A cap on per line support may be in the public interest.

RESPECTFULLY SUBMITTED this 6th day of August, 2004.

/s/
Kate Giard, Chairman
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TABLE 1: FEDERAL UNIVERSAL SERVICE SUPPORT FOR ALASKA

	FEDERAL UNIVERSAL SERVICE SUPPORT PROJECTIONS - 2002										F	G	H
	A	B			C		D		E				
Study Area Name	High-Cost Loop Support	Local Switching Support	Long Term Support	Interstate Common Line Support (Access)	TOTAL		LOOPS 2001	TOTAL SUPPORT PER LOOP PER YEAR	HIGH COST LOOP SUPPORT PER LOOP PER MONTH				
ALASKA	\$44,269,797	\$13,922,871	\$17,669,982	\$5,074,824	\$80,937,474	461,194	\$175.50	\$8.00					
ATEAC, INC.	\$0	\$0	\$0	\$0	\$0								
ACS OF ANCHORAGE	\$0	\$0	\$0	\$146,894	\$146,894	180,407	\$0.81	\$0.00					
ARCTIC SLOPE TEL	\$815,976	\$1,051,284	\$286,536	\$284,172	\$2,437,968	5,963	\$408.85	\$11.40					
BETTLES TEL CO INC	\$39,228	\$94,152	\$33,072	\$5,363	\$171,815	199	\$863.39	\$16.43					
BRISTOL BAY TEL COOP	\$328,740	\$404,400	\$206,556	\$117,058	\$1,056,754	1,891	\$558.83	\$14.49					
BUSH-TELL INC.	\$276,732	\$293,976	\$282,168	\$18,084	\$870,960	1,009	\$863.19	\$22.86					
CIRCLE UTILITIES	\$9,648	\$8,736	\$7,032	\$6,746	\$32,162	41	\$784.45	\$19.61					
COPPER VALLEY TEL	\$3,523,188	\$884,400	\$1,131,600	\$496,662	\$6,035,850	6,519	\$925.89	\$45.04					
CORDOVA TEL COOP	\$269,388	\$446,376	\$130,512	\$68,424	\$914,700	2,094	\$436.82	\$10.72					
ACS-FAIRBANKS, INC.	\$3,151,224	\$1,197,192	\$973,008	\$582,268	\$5,903,692	44,825	\$131.71	\$5.86					
ACS-N GLACIER STATE	\$11,731,476	\$0	\$3,979,332	\$361,850	\$16,072,658	54,355	\$295.70	\$17.99					
INTERIOR TEL CO INC	\$2,561,868	\$1,113,204	\$882,408	\$394,550	\$4,952,030	8,742	\$566.46	\$24.42					
ACS-AK JUNEAU	\$0	\$1,029,540	\$0	\$149,776	\$1,179,316	27,502	\$42.88	\$0.00					
KETCHIKAN PUBLIC UT	\$864,480	\$742,260	\$173,160	\$305,450	\$2,085,350	11,241	\$185.51	\$6.41					
MATANUSKA TEL ASSOC	\$13,175,844	\$0	\$6,765,432	\$528,488	\$20,469,764	60,131	\$340.42	\$18.26					
MUKLUK TEL CO INC	\$596,832	\$761,328	\$269,016	\$158,133	\$1,785,309	4,551	\$392.29	\$10.93					
ALASKA TEL CO	\$574,284	\$1,954,908	\$178,428	\$558,640	\$3,266,260	12,161	\$268.58	\$3.94					
NUNSHAGAK TEL COOP	\$593,772	\$327,492	\$199,584	\$44,666	\$1,165,514	2,630	\$443.16	\$18.81					
OTZ TEL COOPERATIVE	\$937,932	\$866,148	\$318,996	\$248,149	\$2,371,225	3,921	\$604.75	\$19.93					
ACS-N SITKA	\$2,504,004	\$1,285,680	\$633,132	\$120,349	\$4,543,165	14,803	\$306.91	\$14.10					
ACS-AK GREATLAND	\$0	\$260,220	\$0	\$61,607	\$321,827	5,317	\$60.53	\$0.00					
UNITED UTILITIES INC	\$1,671,540	\$838,224	\$962,220	\$285,330	\$3,757,314	11,904	\$315.63	\$11.70					
YUKON TEL CO INC	\$141,960	\$233,016	\$83,316	\$37,440	\$495,732	559	\$886.82	\$21.16					
NORTH COUNTRY TEL CO	\$16,740	\$17,508	\$14,400	\$7,808	\$56,456	205	\$275.39	\$6.80					
SUMMIT TEL & TEL-AK	\$316,116	\$80,280	\$88,344	\$55,924	\$540,664	224	\$2,413.68	\$117.60					
GCI	\$76,995	\$32,547	\$24,576	\$28,536	\$162,654								
ALASKA DIGITEL	\$91,830	\$0	\$47,154	\$2,455	\$141,439								

Source: December 2003 Monitoring Report, Table 3.23 through 3.30, 3.34

TABLE 2: Illustration of Rebasing**EXAMPLE 1: AFTER REBASING - INCUMBENT IS ONLY ETC IN MARKET**

	All Lines Served	Primary Lines Served	Support Per Line per yr	Support Per Primary Line per year	Total Support
ABC Wireline Co. - Before Rebasir (All lines receive support)	5000	3000	\$400	n/a	\$2,000,000
ABC Wireline Co. - After Rebasing (Primary lines receive support)	5000	3000	n/a	\$667	\$2,000,000

**EXAMPLE 2:
AFTER REBASING and a WIRELESS CARRIER GAINS ETC STATUS AND PRIMARY LINES**

	All Lines Served	Primary Lines Served	Support Per Line per yr	Support Per Primary Line per year	Total Support	Change in Support	Change in Support per Line per Month
ABC Wireline Co.	5000	2000	n/a	\$667	\$1,333,333	-\$666,667	-\$11.11
XYZ Wireless Co.	3000	1000	n/a	\$667	\$666,667	\$666,667	\$18.52

Note: In the above example, the ABC Wireline Co.'s has not lost any customers to competition, and must continue to serve its existing customer base, but with a lower level of universal service support.